

# FCC ExParte

*Pioneer Telephone Association, Inc.,*

*Total Communications, Inc.,*

*and*

*Fred Williamson & Associates, Inc.*

*5-14-2007*

*CC Docket No. 96-45*

## **BACKGROUND**

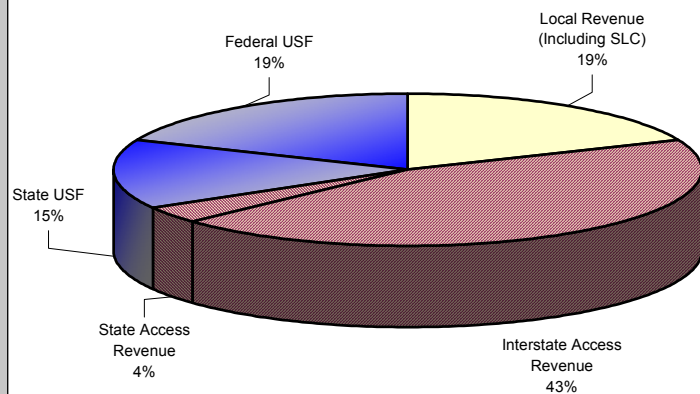
Rural ILECs – Serve low density, high cost to serve areas

- Are Carrier of Last Resort
- Rely heavily on USF and access revenues to meet goals of the Act (universally available service at just, reasonable and affordable rate levels)
- Are deploying advanced services – Broadband deployed, or being deployed throughout service area
- Lines are declining and access MOU flat or declining

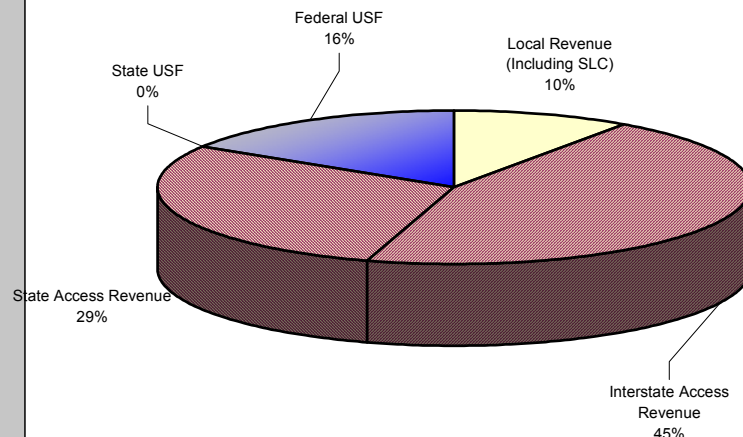
## Revenues Per Line for Certain Rural ILECs in Kansas and Oklahoma

Description	KANSAS		OKLAHOMA	
	Monthly Revenue Per Access Line	%	Monthly Revenue Per Access Line	%
Local Revenue (Including SLC)	\$ 25.00	19%	\$ 15.00	10%
Interstate Access Revenue	\$ 60.00	43%	\$ 70.00	45%
State Access Revenue	\$ 5.00	4%	\$ 45.00	29%
State USF	\$ 20.00	15%	\$ -	0%
Federal USF	\$ 25.00	19%	\$ 25.00	16%
Total	<u>\$ 135.00</u>	<u>100%</u>	<u>\$ 155.00</u>	<u>100%</u>

**Revenue Per Access Line  
KANSAS**



**Revenue Per Access Line  
Oklahoma**



# Broadband Deployment for Certain Rural ILECs

	Lines Per Square Mile	Total Lines	Current DSL Equipped Lines	Current % of DSL Equipped Lines	2-3 Year Target % of DSL Equipped Lines	Current # of DSL Lines Sold	Current % of DSL Lines Sold
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## Kansas ILECs

Company A	2.5	794	794	100%	100%	226	28%
Company B	9.9	2,626	2,100	80%	100%	561	21%
Company C	3.1	14,345	14,345	100%	100%	4,590	32%
Company D	2.9	1,248	998	80%	100%	229	18%
Company E	2.7	2,144	2,144	100%	100%	1,244	58%
Company F	2.9	4,573	2,300	50%	100%	899	20%
Weighted average for these companies in Kansas:				85%	97%		30%

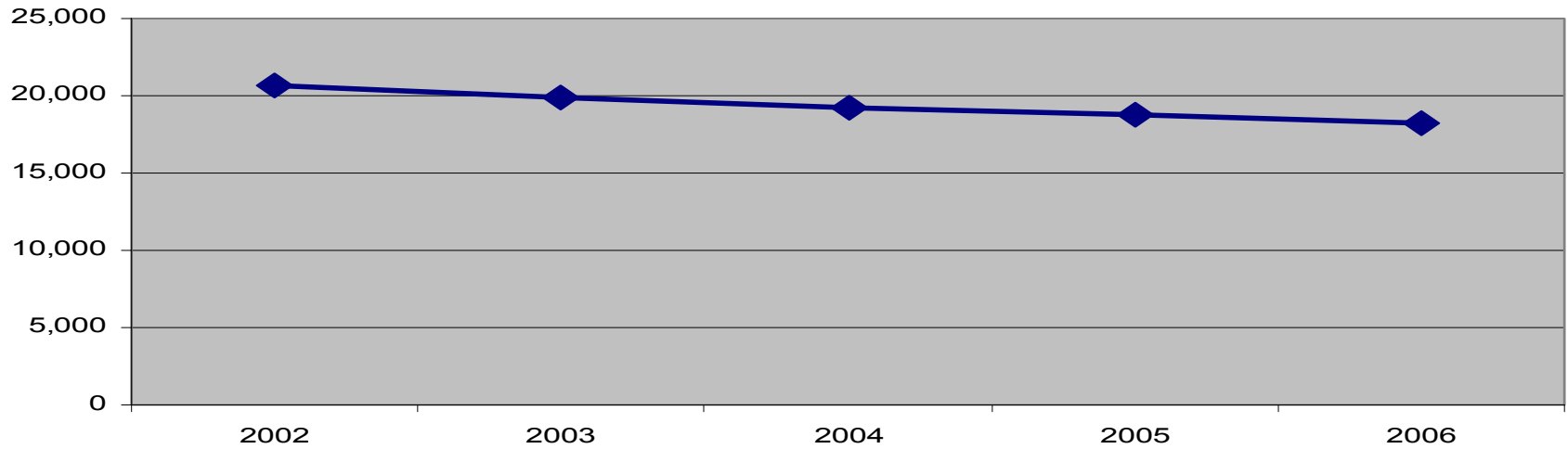
## Oklahoma ILECs

Company G	3.1	2163	1,730	80%	100%	405	19%
Company H	7.5	5889	5,650	96%	100%	630	11%
Weighted average for these companies in Oklahoma:				92%	100%		13%

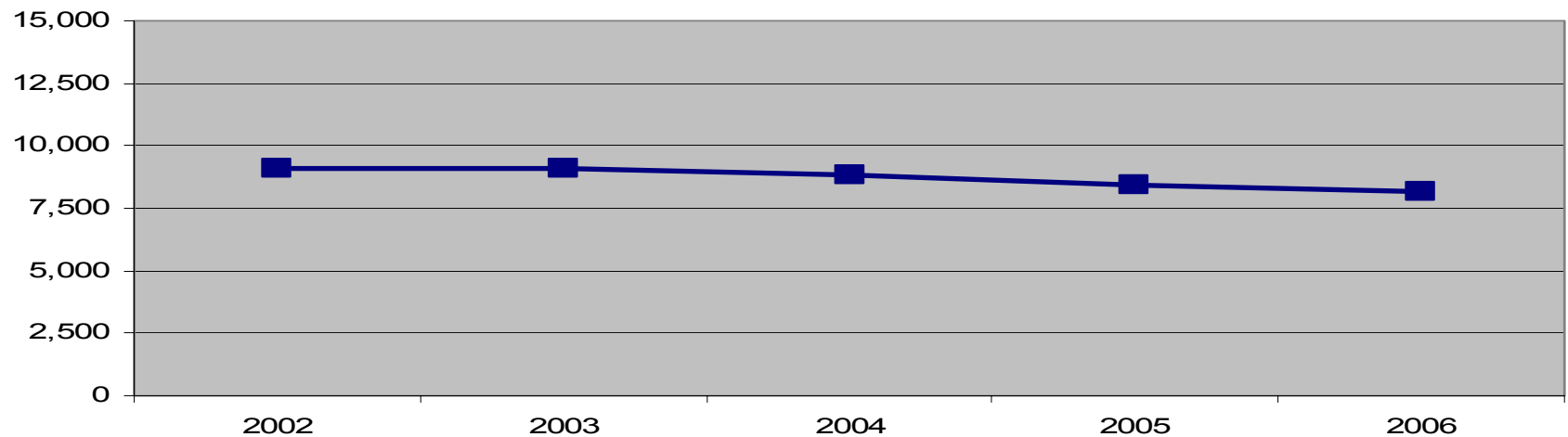
Total weighted average for these companies:				86%	97%		26%
							4

# Analysis of Lines

Lines of Selected Companies in Kansas:

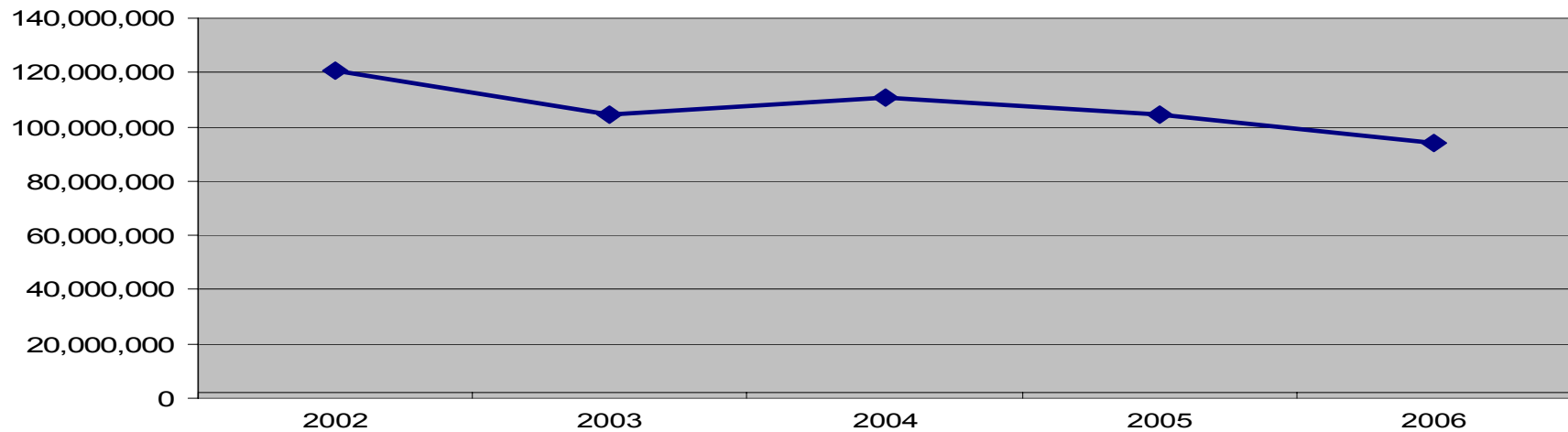


Lines of Selected Companies in Oklahoma:

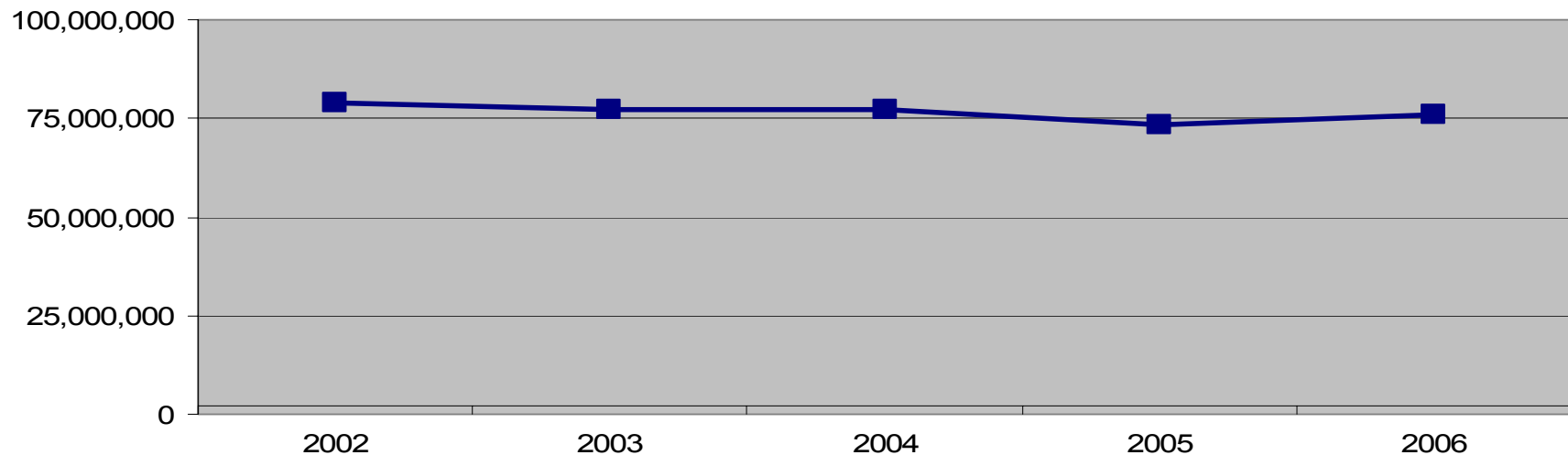


# Analysis of Annual Access Minutes

AMOU of Selected Companies in Kansas:



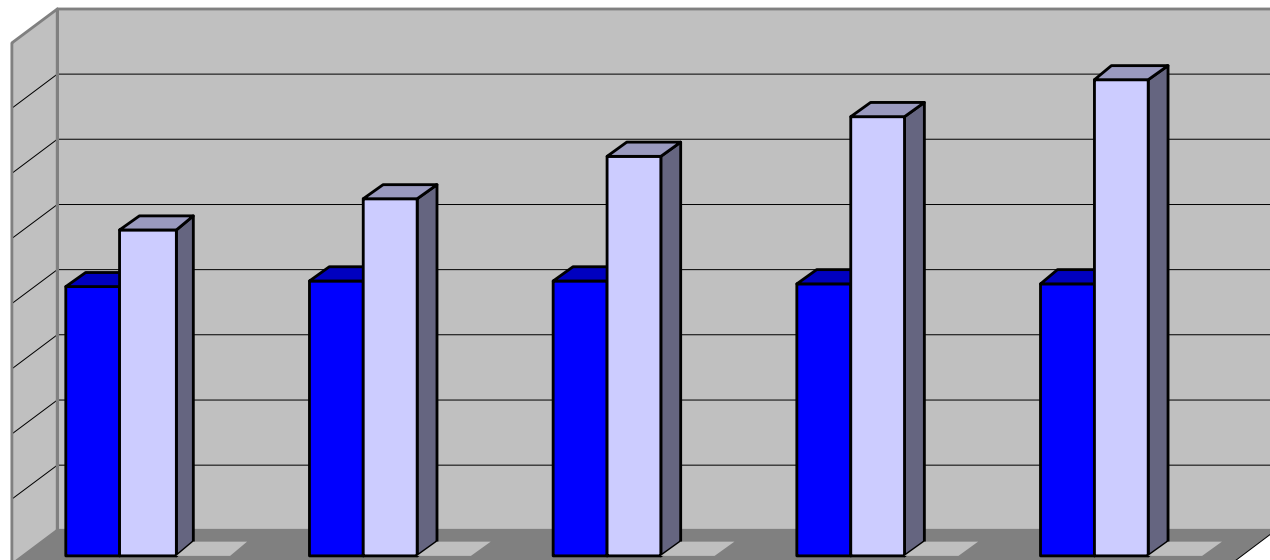
AMOU of Selected Companies in Oklahoma:



## Rural ILEC USF is Capped

- Cap imposed on July 1, 2001
- The USF cap for Rural LECs is determined based on line growth and inflation (*47 C.F.R 36.601 through 36.604*).
- Lines have been decreasing in rural areas and rural LECs have continued to invest in telecommunications facilities to upgrade to provide advanced services. As a result, the difference between capped and uncapped funding has been dramatically growing.
- In 2007, approximately 43% or \$775M of high loop costs are not recovered in USF due to the cap.

## Comparison of Capped Versus Uncapped Rural ILEC HCL Funding



	2003	2004	2005	2006	2007
■ CAPPED	\$1,028,349,903	\$1,047,210,350	\$1,046,733,725	\$1,037,677,290	\$1,039,938,780
■ UNCAPPED	\$1,243,201,380	\$1,361,370,592	\$1,521,579,759	\$1,682,015,538	\$1,815,517,230
% Unrecovered HCL	17%	23%	31%	38%	43%



## Thoughts About Revisions to the USF Mechanisms

### Near Term:

- Joint Board recommended interim cap for CETCs should be adopted by the FCC.
- Collection Mechanism should be revised from interstate revenues to a broader base such as numbers, or numbers and connections

### Longer Term Reform:

- Wireless and wireline are complementary services for most consumers.
- Establish separate divisions of the fund for:
  - Wireless – Recognize mobility for CMRS carriers—establish build out targets.
    - Growth largely due to ETC certification of larger CMRS carriers and identical per-line support rule.
    - Consider parallel to ILEC USF process – funding for smaller regional CMRS ETC carriers based on their costs and cap based on line growth and inflation; Funding for larger CMRS ETCs could be based on model costs and cap based on line growth and inflation.

## Thoughts About Revisions to the USF Mechanisms (cont)

- Wireless (cont) – To incent mobility in unserved areas – establish a safety valve like mechanism whereby additional funds could be requested.
  - Further evaluation to determine if there is a need to establish only one CMRS ETC in an area.
- Wireline ILECs – Add Broadband to USF Definition – establish build out targets.
  - Reset cost based cap for Rural ILECs when cost based cap is established for large and small CMRS ETCs.
- New proceeding to establish specific and auditable ETC requirements for Wireless Mobile versus Wireline ETCs.

# Estimated Annual USF Fund Payments to CETCs

CETC:	2006 USF	2007 USF
ALLTEL	\$139,954,473	\$194,475,814
AT&T WIRELESS (CINGULAR)	\$118,512,943	\$241,940,631
UNITED STATES CELLULAR	\$93,235,741	\$108,233,939
WESTERN WIRELESS	\$90,406,832	\$98,130,301
SPRINT SPECTRUM, LP	\$59,814,522	\$65,136,563
DOBSON CELLULAR SYSTEMS, INC.	\$47,849,067	\$42,105,012
CELLULAR SOUTH LICENSE, INC.	\$47,194,604	\$57,434,179
RCC MINNESOTA, INC.	\$45,264,741	\$41,703,097
NPCR, INC.	\$37,828,643	\$42,263,206
MIDWEST WIRELESS COMMUNICATIONS, LLC	\$29,196,366	\$32,475,708
AMERICAN CELLULAR CORP.	\$24,774,060	\$20,766,250
VIRGINIA CELLULAR LLC	\$2,932,455	\$4,366,076
CELLULAR PROPERTIES DBA CELLULAR ONE	\$897,435	\$1,957,320
<b>CETC &gt; 50,000 lines</b>	<b>\$737,861,881</b>	<b>\$950,988,095</b>
<b>CETC &lt; 50,000 lines</b>	<b>\$277,419,337</b>	<b>\$331,556,484</b>
<b>TOTAL CETCs Receiving Support</b>	<b>\$1,015,281,218</b>	<b>\$1,282,544,579</b>

*Estimated Annual Support based on 2006 and 2007 USF projections (Per USAC Appendix HC-01)*

# 2006 Estimated Annual USF Payments to CETCs – By Mechanism

USF Support Mechanisms	CETC > 50,000 lines	% of Total CETCs	CETC < 50,000 lines	% of Total CETCs	Total CETCs
High Cost Model	\$110,305,525	90.0%	\$12,253,618	10.0%	\$122,559,143
High Cost Loop	\$196,847,076	68.1%	\$92,012,838	31.9%	\$288,859,914
Safety Net Additive	\$4,339,740	84.9%	\$771,045	15.1%	\$5,110,785
Safety Valve	\$548,781	73.7%	\$196,227	26.3%	\$745,008
Interstate Access	\$140,360,145	87.3%	\$20,509,488	12.7%	\$160,869,633
Local Switching	\$75,442,404	73.3%	\$27,504,030	26.7%	\$102,946,434
Interstate CL	\$210,018,210	62.8%	\$124,172,091	37.2%	\$334,190,301
<b>Total High Cost Support</b>	<b>\$737,861,881</b>	<b>72.7%</b>	<b>\$277,419,337</b>	<b>27.3%</b>	<b>\$1,015,281,218</b>

Source: Estimated Annual Support based on 2006 USF projections (Per USAC Appendix HC-01)